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Review of the efficiency of the administrative and financial functioning of the United Nations

Report of the Secretary-General on the activities of the Office of Internal Oversight Services

Note by the Secretary-General

1. Pursuant to General Assembly resolutions 48/218 B of 29 July 1994 and 51/231 of 13 June 1997, the Secretary-General has the honour to transmit, for the attention of the General Assembly, the attached report, conveyed to him by the Under-Secretary-General for Internal Oversight Services, on the review of the procurement of Lysol brand disinfectant by the Office of the United Nations High Commissioner for Refugees.

2. The Secretary-General takes note of its findings.

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Annex

Report of the Office of Internal Oversight Services on the review of the procurement of Lysol by the Office of the United Nations High Commissioner for Refugees

Summary

A. Introduction

As requested by the General Assembly in its resolution 51/231 of 13 June 1997, the Office of Internal Oversight Services (OIOS) has reviewed the procurement of Lysol brand disinfectant in 1993 by the Office of the United Nations High Commissioner for Refugees (UNHCR) for its programmes in the Federal Republic of Yugoslavia, and eastern Bosnia. The case had been reported in the report of the Board of Auditors for the year ending 31 December 1995. Because the Government would not grant import clearance on the importation and distribution of Lysol, UNHCR was obliged to re-export over 90 per cent of the quantities procured in 1993. The resulting losses were originally estimated at $3.04 million, and were attributed to inaccurate needs assessment and deficient procurement planning.

The Lysol procurement was made in response to needs identified by the World Health Organization and other parties concerned with refugee and humanitarian assistance in the former Yugoslavia. The shortage of disinfectants resulted from the lack of petroleum-based commodities in the country, as the international sanctions imposed by the Security Council barred the importation of such products. The initial needs assessment of approximately 2.6 million litres made in March 1993 was subsequently reduced to 1.57 million litres in view of the funding prospects for the whole of the former Yugoslavia.

The OIOS audit considered information from available records and interviews with UNHCR personnel as well as relevant information on Lysol and similar products.

B. Results in brief

The review determined that the losses totalled approximately $2.1 million and that the $3.04 million of losses originally estimated by UNHCR did not take into account the quantities of Lysol actually utilized in the Federal Republic of Yugoslavia and re-exported for use in other UNHCR programmes. While a loss of this magnitude must still be considered very high by any standard, OIOS looked into the question of accountability and found no proof that UNHCR staff had acted negligently, either during the procurement process or in its aftermath when solutions were being sought to minimize the potential loss.

After reviewing the original needs assessment, which identified requirements of approximately 2.6 million litres, against the subsequent procurement of two consignments totalling 1.57 million litres, OIOS concluded that UNHCR was faced with a situation that could not be anticipated and that was outside of its control. OIOS found no evidence to indicate that Lysol disinfectant is (or was) a banned product in Yugoslavia or in other countries. Due to its corrosive and toxic ingredients, it has to be marked and treated as such, which was the case. Nevertheless, UNHCR was not able to persuade the authorities in Belgrade to grant import clearance for the importation and distribution of Lysol and, therefore, was forced to re-export most of the quantities procured.

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I. Introduction

1. The present report has been prepared in response to General Assembly resolution 51/231 of 13 June 1997 on procurement reform in the Organization. Deficiencies in planning for procurement in 1993 of Lysol brand disinfectant for the programme of the Office of the United Nations High Commissioner for Refugees (UNHCR) in the former Yugoslavia were reported in the report of the Board of Auditors for the year ending 31 December 1995.[a] The Office of Internal Oversight Services (OIOS) reviewed the information available on the circumstances and events leading to the procurement of 1.575 million litres of Lysol at a cost of $2.31 million and the partial non-distribution and subsequent re-export of about 90 per cent of the disinfectant from Belgrade. Comments received from UNHCR in April 1998 were taken into account in preparing the present report and are shown in the text in italics.

2. Although extensive documentation on this matter is currently available at UNHCR, it was not until mid-1994, when expectations were diminishing that the Lysol consignments could be distributed to beneficiaries in the former Yugoslavia, that notes for the file were prepared to document meetings and discussions on the problem. Therefore, little documentation is available on the events from December 1993 to mid-1994 when the matter was still considered an active procurement concern. Thereafter, however, the intensive efforts to solve the problem were documented.

3. An OIOS audit of the UNHCR programme in the former Yugoslavia was undertaken in June 1994. However, the Lysol matter was not included in the audit work plan since at the time it was still expected that distribution to beneficiaries would take place, and the auditors had no specific concerns about the procurement. Lysol was considered as just one of many non-food items provided by UNHCR and distributed in the Former Yugoslavia at that time.

II. Reporting by the Board of Auditors

4. The Board of Auditors first raised the issue of the Lysol procurement in an audit observation dated 11 November 1995, in which it requested additional explanations and clarifications on its purchase. No recommendations were made at that stage. In a subsequent management letter dated 13 February 1996 on the interim audit of UNHCR for the year ending 31 December 1995, the Board of Auditors suggested "that UNHCR management should examine the circumstances which led to the above procurement, to fix responsibility for the avoidable losses suffered by the Organization. The total financial loss involved in the transaction should also be worked out after verifying the cost of redeployment of the balance stock of Lysol".

5. In April 1996, three additional audit observations were issued on the procurement of Lysol, mainly to obtain more information and confirmation of certain points. One of the observations, however, offered two recommendations: that existing stock levels be verified before stock is reordered, and that special attention be paid to handling chemicals. The OIOS review confirmed that UNHCR made an effort to supply the appropriate information and answer the queries.

6. In its report for the year ending 31 December 1995, the Board of Auditors stated that "UNHCR suffered a loss of about $3.04 million in procurement, redeployment and resale of Lysol, a disinfectant, because of the refusal of the host country, retroactively, to allow the import".[b] The amount of the reported loss was based upon an estimate provided by UNHCR in February 1996. The Board recommended that UNHCR "improve its procedures for needs assessment and undertake more detailed planning and analysis, in concert with all user-agencies, before procurement of bulk commodities".[c]

III. Initial needs assessment

7. As a result of the international sanctions imposed by the Security Council on the Federal Republic of Yugoslavia in 1992, there was a shortage of petroleum-based products in the country. This was found to be the main reason for the lack of disinfectants in 1993. This shortage was brought to the attention of UNHCR by the World Health Organization (WHO), and it also appeared on the Yugoslav Red Cross list of needed items.

8. The WHO Area Office in Belgrade had reported for the period from November 1992 to April 1993 that water purification chemicals were in short supply as a result of the lack of fuel and related products. The problem was compounded by the fact that garbage collection had stopped in some towns and that many hospital laundries had only cold water – even infectious disease departments were using only water for cleaning. Therefore, realizing the urgency of action required to address the shortage of disinfectants, the need was reported in the United Nations revised consolidated inter-agency appeal for former Yugoslavia,

issued jointly by the Department of Humanitarian Affairs and UNHCR on 11 March 1993.

9. In preparation for project budget estimates and procurement plans, the quantities required were initially calculated at 2.6 million litres based on the expected need for disinfectants for a nine-month period. In addition to the needs of hospitals and clinics, other beneficiaries requiring the disinfectant were identified, including some 560,000 refugees and displaced persons in Serbia, 80,000 in Montenegro and about 520,000 in eastern Bosnia, who for logistical reasons depended on supplies shipped through Belgrade. It should be noted that many refugees and displaced persons in the Federal Republic of Yugoslavia lived in "collective centres" (sports halls and various municipal and government buildings), which offered only basic or insufficient sanitary and cooking facilities. Further, the situation and health conditions in Bosnia at that time also called for the supply of disinfectants.

10. As WHO and other United Nations agencies did not have the financial resources to cover the need for disinfectants, UNHCR, as the lead agency for humanitarian assistance, assumed the responsibility to procure and deliver the disinfectants to Belgrade. As discussed below, quantities under the first purchase order were reduced from the 2.6 million litres requested originally to 1.015 million litres because of funding constraints. The second purchase order, for 0.56 million litres, was funded through a different contribution advice form.

IV. Procurement

11. Upon the appeal to donors to support the programme in the former Yugoslavia, the European Community's Humanitarian Office (ECHO) made a commitment to fund the purchase of disinfectants along with many other relief items under two funding arrangements totalling $37.7 million. It should be noted that normally, purchases funded by ECHO were subject to its own verification of needs. Therefore, it was necessary for UNHCR to keep the ECHO office in Belgrade informed of all decisions regarding the procurement and distribution of Lysol. Also, procurement funded by ECHO is normally "time-driven", as the disbursement of funds is subject to tight time limits. It was stipulated that the first purchase should be made before 30 September 1993 and the second before 31 December 1993. Through competitive bidding, two suppliers were selected to supply Lysol. Further details on the purchasing events are as follows:

(a) Purchase order No. 9085 dated 13 July 1993, for 1,015,000 litres at $1,505,558; delivery period, 13 August to 25 October 1993;

(b) Purchase order No. 9613 dated 20 October 1993, for 560,000 litres at $788,918; delivery period, 22 November 1993 to 15 January 1994.

12. The OIOS review established that during the purchase authorization stage, the UNHCR Belgrade office, through the Headquarters support office for the former Yugoslavia, presented the identified needs for disinfectants to the Procurement Section. The UNHCR sanitary engineer was then contacted to identify the most appropriate product. In accordance with his suggestion, and in line with the UNHCR technical manual on the use of disinfectants in refugee situations, Lysol was identified as the most appropriate product. Although Lysol was selected and indicated in the quotation requests as the product required, suppliers who might have offered different products were asked to provide specifications and details on composition, main ingredients and certificates of analysis, and to indicate whether the alternative product was sold on the European or American market. However, the majority of suppliers quoted Lysol, and only a few alternative products were offered, mostly at considerably higher prices.

13. The Report of the Board of Auditors noted that "no evaluation of the stock-in-hand of the earlier procurement was made before placing orders for the second supply, in spite of the fact that the earlier supply was incomplete".[d] However, it should be remembered that the procurement, in two separate purchases, was dictated by the availability of funds, and that the funds available from ECHO had to be used by 31 December 1993. While it is true that UNHCR did not reassess its needs before placing the second purchase order, it could not be determined at the time of the review whether the relatively slow distribution of the first delivery would have resulted in a substantial reduction in the needs as originally established.

14. Further, information on the distribution of Lysol indicates that approximately 375,000 litres had been released from UNHCR warehouses before the Government failed to issue further import clearance in early December 1993. The second purchase order was placed on 20 October 1993, and up to that date the procurement could have been withdrawn. However, even towards the end of October 1993 there were no signs of potential problems regarding the distribution of Lysol in the former Yugoslavia.

15. *UNHCR management stated that the orders were placed on the basis of need; delays in delivery from the supplier to UNHCR Belgrade warehouses or delays in*

deliveries to the beneficiaries in the Federal Republic of Yugoslavia and eastern Bosnia would not have caused a change in the second purchase order.

V. Technical information

16. Lysol is a product made by blending 50 per cent cresol and 50 per cent liquid soap. It is a well-established product that first appeared in the British pharmacopoeia (under cresol) in 1914; the 1989 edition shows that it was still being used in Yugoslavia. It is considered to be a very effective full-spectrum disinfectant, which is widely used in hospitals, medical clinics and food preparation facilities as well as for general household requirements. However, since cresol has corrosive effects, irritates skin and eyes upon contact and has toxic effects if swallowed, alternative products have been available on the market in recent times.

17. As Lysol is a highly concentrated product, it has to be diluted with water prior to use. Detailed instructions were provided on the one-litre plastic containers to that effect. OIOS noted, however, that the instructions on each container were in English, and not in the local language. In the view of OIOS, instructions in the local language would have helped the local population to understand fully the instructions on its dilution and use, and could have facilitated the acceptance of the product by the Yugoslav authorities, in particular with regard to those quantities intended for use by individual households.

18. Lysol appears to be a trade mark in the Unites States of America, with various blends of disinfectants and detergents offered under the brand. Therefore, the product was not found in United Nations documents or data banks, such as the United Nations Environment Programme International Register of Potentially Toxic Chemicals or the European Agreement concerning the International Carriage of Dangerous Goods by Road and protocol of signature of the Economic Commission for Europe.

19. Also, Lysol could not readily be found in shops in Switzerland or France, whereas cresol, the base substance of Lysol, was readily available in France. Cresol is a concentrated product. and its instructions for use recommended that it be diluted with 50 parts water for cleaning garbage containers and the like.

VI. Delivery, distribution and storage

20. The two orders of Lysol were transported by truck from the United Kingdom of Great Britain and Northern Ireland to Belgrade between August and October 1993 and between November 1993 and January 1994, respectively. Before the transport took place, the Security Council Sanctions Committee, on 26 July and 28 October 1993, granted the approvals necessary for the shipments. The review of shipping documents and inspection reports indicated that the general procedures applied should have ensured that the transit and import formalities would not become an obstacle for the consignment. It was also evident that standard United Nations transport requirements complied with the European Agreement mentioned in paragraph 18 above, to which Yugoslavia was a signatory. Packing and marking of the goods and trucks also complied with general European standards for such chemicals, as listed in the International Register of Potentially Toxic Chemicals.

21. All deliveries of relief items to Belgrade were received and cleared by customs through the UNHCR contracted agent, Jugosped Corporation, an entity of the Government of the Federal Republic of Yugoslavia, which was also responsible for providing warehousing services. The contract between UNHCR and Jugosped stipulated that UNHCR would be charged $35 per truck for customs clearance and agricultural inspection of trucks from other countries. This indicated that transport documents were received and some inspections were actually performed. In case of non-compliance, Jugosped was obligated to inform UNHCR immediately. No information was found protesting or questioning the Lysol consignments until after part of the second purchase had been delivered. Therefore, from the second purchase of 560,000 litres in early December 1993, approximately 533,000 litres were retained in a bonded warehouse.

22. Upon the delivery of Lysol to Belgrade, distribution started immediately, mainly through local Red Cross societies. However, distribution was possible only in much smaller quantities than the incoming shipments. Difficulties were also experienced in transporting non-food items to Bosnia. An analysis made in May 1995 by the UNHCR logistics officer in Belgrade showed that distributions of Lysol to the Red Cross and regional warehouses in the Federal Republic of Yugoslavia and Bosnia totalled 358,488 litres and 16,128 litres respectively. Of that quantity, it appears that over 150,000 litres were actually distributed to beneficiaries. Once the Government of the federal Republic of Yugoslavia had placed a ban on any further distribution

of Lysol, the remaining quantity (over 200,000 litres) was retrieved in 1995 from various locations for re-export by UNHCR.

23. Therefore, about 37 per cent of the first purchase had been distributed from UNHCR warehouses when the ban on the importation and distribution of Lysol took effect early in December 1993.

24. The final accounting for quantities of Lysol indicated that of the 1.57 million litres procured, about 155,000 litres were distributed and utilized in the former Yugoslavia, while the remaining quantity was re-exported to the supplier and to other UNHCR programmes that had a need for disinfectant.

VII. Re-export of Lysol from Belgrade

25. Documentation could not be found for the Government's decision banning the importation and distribution of Lysol effective in early December 1993. However, since that date, customs would not clear the remainder of the second purchase, which was under delivery.

26. The OIOS review showed that the UNHCR office in Belgrade had made substantial efforts to have the ban lifted. Meetings were held with various Federal Republic of Yugoslavia government offices where solutions and compromises were offered, but without success. The Federal Ministry for Work, Health and Social Policy finally informed the International Committee of the Red Cross (as the consignee), on 8 August 1994, that the country's annual need for Lysol was around 100 tons and, as that quantity had already been distributed, further import clearance would not be issued. At the end of 1994, UNHCR decided to remove the Lysol from Belgrade, and clearance for re-export was obtained in January 1995 from the Security Council's Sanctions Committee.

VIII. Financial loss

27. According to the Board of Auditors, the Administration estimated the total financial loss suffered in the transaction at $3.04 million.[e] That amount included all direct costs for the actual procurement and transportation, to and from Belgrade, together with indirect costs based on estimates for storage and handling, less refunds of $112,346 received from the supplier for returned quantities.

28. The subsequent review by OIOS showed that the loss estimated by UNHCR also included the costs of those quantities actually distributed and utilized in the Federal Republic of Yugoslavia and re-exported for use in other UNHCR programmes. OIOS has therefore reassessed the total loss resulting from the Government's ban on the importation and distribution of Lysol (see appendix). About 510,000 litres valued at nearly $750,000 were distributed in the former Yugoslavia or transported to other UNHCR programmes that needed the disinfectants.

29. OIOS did not include the transport costs for the re-export of the Lysol to other UNHCR programmes in the calculation of the "loss", as the supply of disinfectants benefited those programmes. The transport costs from Belgrade to three destinations in Africa amounted to approximately $151,000.

30. The storage costs related to the Lysol had been estimated by UNHCR at $220,000. It should be noted that certain quantities were kept by the International Federation of Red Cross and Red Crescent Societies and the local Red Cross warehouses, which did not involve a direct charge to UNHCR. Also, it appears that the actual distribution in the Federal Republic of Yugoslavia was slightly higher than previously estimated. OIOS estimated that, based on the warehouse rate of $3 per square metre, the storage costs when the Lysol was in actual storage (from December 1993 to mid-1995 when re-exporting commenced) were approximately $160,000. Therefore, the final loss as calculated by OIOS is about $2.1 million, as compared with the $3.04 million originally reported.

IX. Establishment of responsibility

31. OIOS also looked into the question of individual responsibility for the losses. After reviewing the sequence of events in the case of the procurement of Lysol, OIOS believes that personal liability cannot be attached to any UNHCR staff member owing to either intentional or inadvertent action. Looking at this case in hindsight, it appears that the UNHCR staff in Belgrade and the staff supporting the Yugoslavia programme at UNHCR headquarters could not have anticipated this problem and did their utmost to resolve it once it arose.

32. *UNHCR management stated that the report provided a fair and balanced account of the circumstances and conditions under which the Lysol purchase was made, and justified the actions of UNHCR.*

X. Conclusions

33. The need for disinfectant in the former Yugoslavia was becoming a serious problem in 1993. Based on an initial needs assessment by WHO and UNHCR, Lysol brand disinfectant was chosen from the UNHCR Technical Manual as the most suitable product. OIOS has not obtained any technical or other information that would suggest otherwise.

34. The non-acceptance of Lysol into the country appeared to be a situation that could not have been anticipated by UNHCR, and the losses incurred, both financially and from the point of view of the beneficiaries of UNHCR, cannot be attributed to negligence by any UNHCR staff member. Even after the Government of the Federal Republic of Yugoslavia failed to issue further import clearance, the general health facilities in the former Yugoslavia continued to suffer from the shortage of disinfectants.

35. The financial loss suffered in the transaction, previously estimated at $3.04 million, has been re-examined taking into account quantities distributed in the former Yugoslavia and other UNHCR programmes. Based on further analysis, OIOS considers the net loss to UNHCR to be approximately $2.1 million.

(*Signed*) Karl Th. **Paschke**
Under-Secretary-General for
Internal Oversight Services

Notes

[a] *Official Records of the General Assembly, Fifty-first Session, Supplement No. 5E* (A/51/5/Add.5).

[b] Ibid., para. 26.

[c] Ibid., para. 121.

[d] Ibid., para. 118.

[e] Ibid., para. 120.

Appendix

Costs and losses of Lysol procurement

	Litres	*Value (United States dollars)*	
Procurement – first purchase order	1 015 000	1 505 558	
Procurement – second purchase order	560 000	788 918	
Insurance and inspection		15 680	
Total purchase costs (average value per litre = $1.467)		2 310 156	
Less:			
Quantity forwarded to other UNHCR programmes	(354 708)	(520 356)	
Quantity remaining in the Federal Republic of Yugoslavia and Bosnia	(155 808)	(228 570)	
Refunds received from supplier	(1 064 484)	(112 346)	
Subtotal		(861 272)	
Loss after distribution and returns to supplier			1 448 884
Add:			
Repacking of Lysol in transit		59 976	
Estimated loading, handling and customs services (1993-1995)		58 615	
Transport cost to the United Kingdom ($169,355 + $178,898)		348 253	
Subtotal		466 844	
Estimated storage costs from December 1993 to mid-1995		160 000	
Subtotal		626 844	
Total estimated loss			2 075 728
Costs not included in the above loss calculation			
Transport cost to three African destinations		150 847	
Less insurance refund		(59 608)	